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**Division of Internal Audit**

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Government Accountability Professionals

**ANNUAL REPORT and WORK PLAN**

**For the Fiscal Year  
July 1, 2015 – June 30, 2016**

Division of Internal Audit  
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*The mission of the Office of Internal Audit is to provide objective analysis and information critical to better decision making and enhancing the overall governance capability within the Tennessee Department of Transportation.*



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## **INTRODUCTION**

The Office of Internal Audit (IA) provides audit and assurance; consulting and advisory; education and internal control assessments; and integrity/investigative services for the Department. Our commitment to deliver high-quality internal audit services is what we always strive to achieve. We provide a comprehensive slate of services designed to enhance operational processes, internal controls, support senior leadership initiatives, and increase key stakeholder confidence.

Prioritized from a risk management approach, audit and assurance services focus audit resources on areas of high risks. Through pragmatic solutions and recommendations, IA endeavors to provide senior leadership and the function's management structure the best information they can use to make better business decisions. The collaborative approach defines our consulting and advisory services designed to initiate and address operational concerns regarding the constantly shifting business environment. Through IA's education and internal control services, we strive to provide training on ethical behavior, fraud awareness, internal controls, and the proper use of TDOT assets by Department employees. Finally, IA conducts integrity and investigation services to substantiate alleged instances of fraud, waste, and abuse of TDOT funds by employees, contractors, vendors, and grantees.

IA's current staff consists of eight government accountability professionals, which include the division director, six auditors, and a lead investigator.

## **MISSION STATEMENT**

Our mission is to provide objective analysis and information critical to better decision making and enhancing the overall governance capability within TDOT.

## **VISION STATEMENT**

It is our vision to become a valuable management resource that facilitates the promotion of good governance by performing high quality audit, assurance, consulting, and investigative works that:

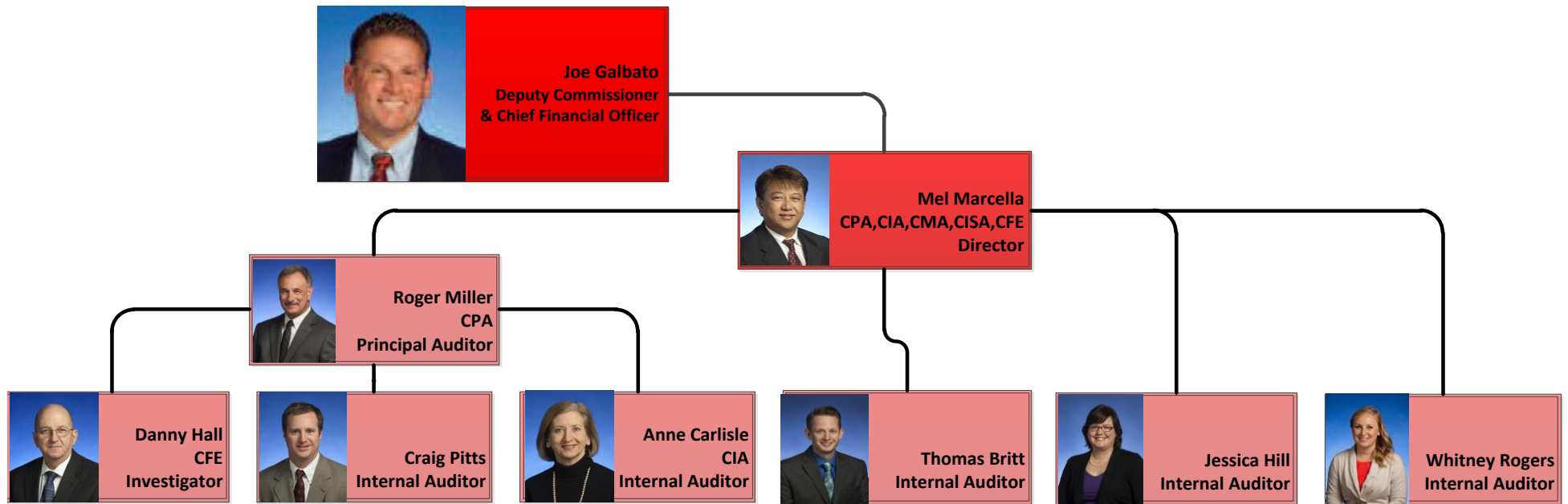
- Address key enterprise risks central to TDOT's strategies and objectives
- Apply audit work commensurate with material risks.
- Help improve internal controls, transparency, and accountability of operations.
- Promote a tone of openness, cooperation, and mutual trust within TDOT.
- Place emphasis on areas that have heightened sensitivity to management and citizens of Tennessee.

## **SERVICES PROVIDED**

<b>Line of Business</b>	<b>Description</b>
<b>Audit and Assurance Services</b>	Our audit and assurance services primarily comprise <i>Performance Audits</i> . Performance audits are integrated audit engagements that evaluate operational functions, financial programs, key processes, and activities from a risk management based approach. We conduct performance audits in accordance with existing <i>Government Auditing Standards</i> (GAS), and these engagements evaluate the efficiency, effectiveness, and economy of TDOT's operations.
<b>Consulting and Advisory Services</b>	We conduct our consulting and advisory services to assist our various divisions or functions develop pragmatic solutions, implement changes, and address internal control deficiencies. We believe that we serve you best under a collaborative approach to understand business requirements using benchmarking, process improvements, and performance metrics to find solutions tailored to meet organizational needs.
<b>Education Services</b>	Education services comprise our proactive approach to disseminate information on ethical behavior, fraud awareness, internal controls, and the proper utilization of TDOT assets. In the coming year, we will endeavor to continue devising instructional materials to help our employees understand the value of management internal controls.
<b>Integrity Services</b>	Investigations help provide management the information needed to address instances of fraud, waste, and abuse; identify perpetrators; institute controls to mitigate the opportunities for fraud to occur; and prevent the recurrence of the incident. Due diligence reviews provide evaluations of instances when management discovers the irregularities. Our function under these circumstances is to provide exculpatory or confirmatory information for final resolution.
<b>Special Projects</b>	Special projects occur in response to emerging issues, abrupt changes in regulations, or changing business requirements. Services vary from limited scope engagements, enterprise risk assessment, unplanned audits, to non-audit type attestations at the request of senior leadership, division directors, or a process owner.
<b>Audit Follow-up Services</b>	Follow-up activities are limited reviews performed to ascertain the status of issues identified from a prior engagement.

*Source: TDOT Internal Audit*

## ORGANIZATIONAL CHART



Source: TDOT Internal Audit Organizational Chart as of June 15, 2015

## **STAFFING CHANGES**

- Jack Henry CPA, CGFM, Auditor 3, retired on September 30, 2014
- Hired Jessica Hill, MBA, Auditor 1\* on October 6, 2014
- Hired Thomas Britt, MBA, Auditor 1\* on October 6, 2014
- Hired Roger Miller, CPA, Auditor 4 on March 7, 2015

## **ACCOMPLISHMENTS**

- IA completed one scheduled audit engagement and one agreed-upon procedures review
- We successfully on-boarded three new employees (two junior level auditors and one supervisor)
- Agreed-upon procedures engagement identified ~ \$28,000 in recoverable claims against TDOT grantees.
- We conducted the 2015 year-end annual review of the *IA Standards and Procedures Guide* and made changes to address further compliance with GAS and improve internal efficiencies.
- We updated the *IA Investigations Standards and Procedures Guide* to include a new project category, *Evaluations* (EV). All integrity services engagements begin with the EV category and would transition to an investigative case (CASE) or terminated depending on the presence or absence of *adequate predication*.
- In cooperation with TDOT Information Technology Division, IA deployed Audit Command Language (ACL), ACL is a data analytics application that empowers IA to perform various types of analyses to discern transaction integrity
- IA provided 14 hours of specialized ACL training to IA staff on basic ACL functions to improve service delivery and increase auditor skills and capability
- Complied with GAS requirements for fulfilling all IA staff continuing professional education (CPE) requirements
- Initiated continuous auditing protocols for Fuelman utilization
- Completed TDOT's annual Enterprise Risk Assessment
- Developed construction auditing programs for use in FY 2016

## **OPPORTUNITIES**

- Help improve the Division of Multimodal Resources operational process for the oversight and monitoring of formula grants.
- Provide continuous monitoring and auditing for bulk transactions (such as fuel, parts, small equipment, and tools purchases)
- Create an atmosphere of collaborative work environment through outreach initiatives designed to emphasize the importance of management implemented internal controls and appropriate utilization of TDOT assets.
- Continue staff development through the completion of professional certifications in auditing, information systems, accounting, and fraud examination.

## **STRATEGIC INITIATIVES**

- Continue initiatives for active enterprise risk assessments using the GAO *Green Book* and guidance from the Department of Finance and Administration for complying with Tennessee's Financial Integrity Act of 1983.
- Increase educational services through additional informative videos
- Continue the design and implementation of data-driven continuous auditing
- Continue participation in Yellow Book (Government Auditing Standards) peer review opportunities

## **BUSINESS RESULTS**

### **Exhibit A – Activity Summary From the Period July 1, 2014 through June 30, 2015**

<b>Service</b>	<b>Results</b>
<b>Audit and Assurance</b>	<b>1</b> Audit Completed: <ul style="list-style-type: none"><li>• Change Orders and Supplemental Agreements (Part II)</li></ul> <b>2</b> Audits in Progress: <ul style="list-style-type: none"><li>• Performance Audit of the Finance Division</li><li>• Performance Audit of the Disadvantaged Business Enterprise</li></ul>
<b>Special Projects and Integrity Services</b>	<b>20</b> Special Project Completed: <ul style="list-style-type: none"><li>• GHSA Agreed-upon Procedures</li><li>• Closed 19 Investigations</li></ul>

*Source: TDOT Internal Audit as of June 30, 2014*

**Exhibit B - Investigative Activity Summary**  
**From the Period July 1, 2014 through June 30, 2015**

Case Reference	Case Description	Date Opened or Referral Date	Status or Date Closed
SP 2014-006	Alleged Theft and Asset Misappropriation at Unit 2901	6/9/14	7/18/14
SP 2014-007	Alleged Fuel Theft at Cannon County	6/6/14	7/23/14
SP 2014-008	Project# Reserved for 2014 Single Audit Follow-up	n/a	n/a
SP 2014-009	Alleged Theft of Time at Unit 2651 (EV 2014-001)	6/25/14	Referred to management
SP 2014-010	BESCO Invalid Invoices		Closed for lack of predication
SP 2014-011	Project # Reserved for 2014 Enterprise Risk Assessment	n/a	n/a
SP 2014-012	Alleged Invoice Discrepancies at Winchester Airport	10/29/14	Referred to management
EV 2014-001	Escalated to SP 2014-009	n/a	n/a
EV 2014-002	Alleged Waste of Asphalt at Region 3 Maintenance	9/2/14	10/8/2014 Referred back to the Comptroller's Office
EV 2014-003	Aeronautics (Head Engineer)	10/9/14	Closed for lack of predication
EV 2014-004	Alleged Theft of Disposed (Used) Tires at Region 1	9/19/14	Closed for lack of predication
EV 2014-005	Alleged Time Abuse at Region 4	10/24/14	Referred to management
EV 2014-006	Fraud Form 521	10/19/14	Referred to Department of Revenue
EV 2014-007	Complaints at Region 2 Beautification		Closed for lack of predication
EV 2015-001	Alleged Theft of Time at Unit 1922	2/25/15	Referred to Region 1 management
EV 2015-002	Region 3 Materials and Test	4/8/15	Open
EV 2015-003	Fraud Form 621	2/26/14	Referred to OIG
EV 2015-004	Fraud Form 641	3/4/15	Closed for lack



			of predication
EV 2015-005	GHSO Woodbury (SP 2015-001)	3/10/15	5/6/15
EV 2015-006	Comptroller's Referral 15-0640	3/11/15	Open
EV 2015-007	Complaints at Region 4 Materials and Test	4/8/15	Referred to management
EV 2015-008	Mountain States DBE Complaint	4/10/15	Referred to OIG
EV 2015-009	Escalated to CASE 2015-001	6/8/15	6/30/15
CASE 2015-001	District 37 Time Discrepancies	6/8/15	6/30/15
EV 2015-010	Escalated to CASE 2015-002*	6/11/15	7/1/15

Source: Office of Internal Audit

\*Will be included in the FY 2015-2016 Annual Report

### Exhibit C – Budgeted Allocation of Work Hours For the Period July 1, 2015 through June 30, 2016

Engagements and Projects	Budgeted Number of Projects	Budgeted Hours
<b>Audits and Attestations</b>		
Current Performance Audits	2	1,000
Proposed Performance Audits (3 Construction Audits)	4	5,000
<b>Special Projects</b>		
Continuous Auditing of Fuel Transactions (Bi-annual reports)	2	800
TDOT Enterprise Risk Management	1	650
<b>Follow-up Reviews</b>		
Comptroller Audit Findings FY 2014	1	300
Right of Way	1	450
<b>Other</b>		
Integrity Services :	8	2,000
Education Services:	-	300
<b>Cumulative Hours</b>		<b>10,500**</b>
<b>Total Report Deliverables</b>		<b>19*</b>

Source: Office of Internal Audit

\*Total Projected Reports to be delivered.

\*\* Budget based on a projected resource staff of six auditors and one Investigator.

**Exhibit D - Audit Work Plan**  
**For the Period July 1, 2014 through June 30, 2015**

<b>Engagements (as of June 30, 2014)</b>	<b>Status</b>
<b>AU 2015-001</b> – Division of Finance Internal Control Process	<i>Fieldwork</i>
<b>AU 2015-002</b> – Diversity Business Enterprise Process	<i>Pre-Planning</i>
<b>SP 2015-001</b> – Right of Way Follow- up Review	<i>Pre-Planning</i>

**Planned Performance Audit  
Engagements  
(for the fiscal year 2015)**

**Potential Audit Objectives**

<b>SP 2016-001</b> – Continuous audit of Fuelman Transactions	<ul style="list-style-type: none"> <li>• Are Fuel man transactions appropriately controlled?</li> </ul>
<b>AU 2016-001</b> – Performance Audit of Site Manager Application Controls	<ul style="list-style-type: none"> <li>• Are access rights to Site Manager appropriately controlled?</li> <li>• Do processing controls support a valid business function?</li> <li>• Do output controls ensure transaction integrity?</li> </ul>
<b>AU 2016-002 through AU 2016-004</b> Performance Audit of Construction Activities	<ul style="list-style-type: none"> <li>• Are contractors performing construction activities according to contract terms?</li> <li>• Are labor practices and expenditures compliant with prevailing wage and other Davis-Bacon requirements?</li> <li>• Do materials conform to contracted specifications?</li> <li>• Does the execution of project change orders comply with policy?</li> <li>• Are insurance policies and other bonding requirements in full force and effect?</li> <li>• Does the project meet stated DBE participation goals?</li> <li>• Are progress payment requests properly supported by documentation?</li> </ul>

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**SP 2016-002**–Finance Division P-Card  
Purchases

- Are internal controls in place to ensure all P-Card purchases represent authorized, valid, appropriately reviewed, and properly supported transactions?
  - Are internal P-Card processes sufficient to reasonably and adequately assure compliance with laws and regulations?
  - Are internal processes related to issuing P-Cards, training personnel on the proper use of P-Cards, and actual use of P-Cards appropriately monitored and controlled by the management of the Finance Division?
  - Are internal P-Card processes sufficient to meet current business objectives?
-